

Message Text

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PAGE 01 STATE 047503

12

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TO AMEMBASSY TEHRAN

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY KUWAIT

AMEMBASSY JIDDA

AMEMBASSY TRIPOLI

C O N F I D E N T I A L STATE 047503

E. O. 11652: GDS-4

TAGS: ENRG

SUBJECT: OIL CONSORTIUM - NIOC NEGOTIATIONS

1. SUMMARY. ACCORDING TO AMERICAN OIL COMPANY OFFICIALS, NIOC - CONSORTIUM NEGOTIATIONS HAVE GOTTEN OFF TO DIFFICULT START, WITH NIOC TAKING HARD LINE ON GOI MANAGEMENT PEROGATIVES OVER SERVICE CONTRACTOR. US COMPANIES BELIEVE THAT MANAGEMENT PROVISIONS MUST BE SIMILAR TO THOSE IN PARTICIPATION AGREEMENTS OR ELSE RISK REOPENING OF LATTER, AND HAVE INDICATED TO US THEY UNHAPPY AT WILLINGNESS OF EUROPEAN AND BRITISH MEMBERS OF CONSORTIUM TO COMPROMISE ON THIS ISSUE.

2. WE UNDERSTAND THAT COMPANIES' OPENING NEGOTIATING PROPOSAL HAD STIPULATED THAT NIOC APPROVAL OF SERVICE
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PAGE 02 STATE 047503

CONTRACTOR PLANS AND BUDGET (AS REQUIRED BY AGREEMENT IN PRINCIPLE REACHED WITH SHAH) BE MADE SUBJECT TO PRIOR AGREEMENT WITH CONSORTIUM MEMBERS. COMPANIES' GOAL WAS TO ASSURE THAT NIOC COULD NOT DICTATE MANAGEMENT DECISIONS OR IMPOSE UNECONOMIC PROJECTS ON CONTRACTOR; US COMPANIES IN ADDITION WERE ANXIOUS TO MAINTAIN COMPARABILITY WITH PARTICIPATION AGREEMENT WHICH STIPULATES THAT MANAGEMENT DECISIONS BE JOINTLY TAKEN EVEN AFTER 51 PERCENT OWNERSHIP REACHED. NIOC NEGOTIATORS HOWEVER RESISTED ABOVE APPROACH, INSISTING THAT GOI MUST BE SEEN TO HAVE FULL MANAGEMENT CONTROL IF IT TO ACCEPT FINANCIAL

SETTLEMENT ONLY EQUAL TO AND NO BETTER THAN PARTICIPATION. IN CONSORTIUM MEETING OF PRINCIPALS MARCH 12 PRIOR TALKS MOVING FROM LONDON TO TEHRAN, AMERICAN AND EUROPEAN COMPANIES WERE BADLY SPLIT ON THIS ISSUE, BUT EVENTUALLY AGREED TO PROPOSE IN COMING ROUND OF NEGOTIATIONS THAT NIOC APPROVAL OF SERVICE CONTRACTOR BUDGETS BE MADE AFTER "CONSULTATION" WITH CONSORTIUM. FYI WE UNDERSTAND THAT COMPANIES MIGHT REQUEST TO SEE SHAH IF THEY UNSUCCESSFUL ON THIS POINT, BUT MIGHT BE PREPARED TO ACCEPT LOOSE CONSULTATION PROVISION PROVIDED OTHER TERMS OF SETTLEMENT WERE SUCCESSFULLY PINNED DOWN. END FYI.

3. ON FEE ARRANGEMENTS, WE UNDERSTAND FROM COMPANIES THAT CONSIDERABLE GROUND REMAINS TO BE COVERED, ALTHOUGH THEY REPORT THAT NIOC NEGOTIATORS APPEAR TO ACCEPT COMPANIES' GENERAL APPROACH FOR EQUATING BENEFITS OF NEW ARRANGEMENTS WITH POTENTIAL BENEFITS OF PARTICIPATION. IT FAIRLY CLEAR, HOWEVER, THAT GOI OFFICIALS (PARTICULARLY AMUZEGAR AND HOVEYDA) PREPARED TO RENEW ARGUMENT OF JANUARY NEGOTIATIONS RE APPLICABILITY OF PARTICIPATION TERMS TO IRANIAN SITUATION. FALLAH, HOWEVER, WHO CONSULTED WITH SHAH DURING COURSE OF LONDON MEETINGS, TOLD STEELE OF BP THAT GOI PREPARED TO ACCEPT FINANCIAL BENEFITS EQUIVALENT TO PARTICIPATION IF COMPANIES GAVE SHAH VISIBLE 100 PERCENT CONTROL OF MANAGEMENT; I. E. WITHOUT CONTRACTUAL STRINGS.

4. ON CARRY-FORWARD OF TERMS FROM 1954 AGREEMENT, NIOC NEGOTIATORS REFUSED TO AGREE TO INCLUSION OF OLD ARBITRATION CLAUSE, WHICH COMPANIES LIKE BECAUSE THEY
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PAGE 03 STATE 047503

FEEL IT GIVES THEM SOME LEVERAGE IN NEGOTIATING DISPUTES

WITH GOI. AFTER HEATED DEBATE IN CONSORTIUM MEETING, COMPANIES AGREED TO AUTHORIZE NEGOTIATORS TO ACCEDE TO NIOC DEMAND FOR HOPCO- TYPE ARBITRATION CLAUSE IF NECESSARY (I. E. DISPUTES SETTLED UNDER PROVISION OF IRAN PETROLEUM).

5. NIOC NEGOTIATORS ALSO RAISED ISSUE OF RELINQUISHMENTS OF CONTRACT AREA, OR ALTERNATIVELY INCREASED AMOUNTS OF OIL FOR NIOC MARKETING. COMPANIES HAVE AGREED TO DISCUSS SOME RELINQUISHMENTS.

6. ON PROVISION OF CAPITAL, CONSORTIUM HAS PROPOSED, AND NIOC NEGOTIATORS APPEAR TO HAVE ACCEPTED, THAT COMPANIES WOULD ADVANCE 40 PERCENT OF REQUIRED CAPITAL. NIOC SAID, HOWEVER, THAT IN VIEW OF FACT THERE NO NIOC INVESTMENT PROVISION IN NEXT STATE BUDGET, IT WANTED COMPANIES TO PUT UP ENTIRE AMOUNT. (COMPANIES APPEAR TO EXPECT THAT GOI WILL CONTINUE TO REQUEST THEM TO PUT UP

MAJOR PART OF CAPITAL).

7. NEGOTIATIONS RESUMED MARCH 14 IN TEHRAN. WE EXPECT THAT AGREEMENT ON FEE STRUCTURING, AND MANAGEMENT PROVISIONS, WILL CONTINUE TO POSE MOST DIFFICULT PROBLEMS, WHICH UNLIKELY TO BE MADE EASIER BY KIBBITZING FROM AMUZEGAR, HOVEYDA, AND OTHER GOI OFFICIALS. SHAH HOWEVER WILL BE RETURNING TO TEHRAN TO KEEP CLOSELY IN TOUCH WITH NEGOTIATIONS, AND COMPANIES APPARENTLY HOPE HE WILL KEEP THEM ON EVEN KEEL. THERE MAY, HOWEVER BE FURTHER DIFFICULTIES BETWEEN CONSORTIUM PARTNERS, PARTICULARLY ON MANAGEMENT ISSUE. WE UNDERSTAND FROM BRITISH EMBASSY SOURCE THAT CONSIDERATION BEING GIVEN TO RESOLVING MANAGEMENT ISSUE BY MAKING SHAH COURT LAST RESORT FOR CONSORTIUM IN DISAGREEMENTS WITH NIOC. ROGERS

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